



The video game market

As games out-gross the box office, is the video games market set to become one of the dominant entertainment markets?



How large is the industry for games?

Consultancy Newzoo expects the games market to make \$137bn in sales and grow by 13.3% by the end of 2018.

The games market does not include hardware sales, [of which DFC Intelligence estimates high-end gaming computers to be worth \\$40bn in 2017](#). By comparison, IHS claims consoles generated \$14.1bn in sales that year.

The market is split into two subsectors: the core segment, defined by computer and console gaming, and mobile gaming. It is the mobile segment that has come to represent nearly half the market since its renaissance in 2006.

How is the mobile market faring?

Mobile games will likely exceed traditional gaming in terms of revenue by next year. The market as a whole relies on an interesting dynamic. Most mobile games function on a freemium model, in which access to the game is free, but players buy digital assets or upgrades with real-world money.

In this model, a small subset of dedicated spenders, or whales, generate most revenue. In a study of 20 million gamers over 30 days of play, [Swrve found that half of all the revenue generated by 40 titles came from 0.19% of users](#).

There have been signs that mobile monetisation may be shifting slowly away from this model. deltaDNA, a mobile marketing platform, claims that the proportion of mobile gamers who spend money has almost doubled in Europe over the last three years.

What proportion of the core market do consoles represent?

Games played on dedicated consoles make up half of the core market and go through historical cycles of seven to eight years.

A cycle is determined by the release of new consoles that drive peak sales,

followed by consistently declining hardware purchases until new devices are brought to market. The current generation of consoles, six years into what is expected to be a 10-year cycle, has seen Sony's Playstation 4 (PS4) lead the pack. IHS Markit reports that Sony's (PS4) made up 51% of the console's value in 2017.

This includes game content, services and hardware, which together generated \$17.8bn in 2017 sales for Sony. By comparison, Microsoft's XboxOne made \$9.1bn in sales and Nintendo's portable 3DS and 2DS originated \$2.6bn in sales value.

How does the PC market compare to its console cousin?

Computers and consoles split the games content market evenly amongst themselves, with PC gaming retaining around \$30bn in sales. Sales are driven for the most part by digital downloads, which are more popular on PCs than consoles.

That said, browser PC games, played online without the need for downloads, have grown in popularity, with Newzoo forecasting a 13.9% year-on-year growth over 2018.

In contrast, DFC Intelligence found that the high-end PC hardware segment is significantly larger than its console cousin. It has reported that the market for high-end gaming computers made around \$40bn in 2017 versus \$14.1bn IHS claims consoles generated.

Edison's Insight:

"The market is polarising with sophisticated mobile games such as Fortnite soaring in popularity and e-sports invading terrestrial sports' space at the high end. The console cycle may be history, while in new tech, VR is yet to impact fully. In this market new players may come from nowhere to dominate." Paul Hickman, head of research, consumer

Is ancillary gaming growing in line with the rest of the industry?

The nature of ancillary gaming products, with the exception of screens or keyboards, is one of gimmicks that explode in popularity but often fade from the market.

The only current growth sector is virtual reality (VR), which has expanded from nearly nothing in 2015 to a revenue base of \$2.6bn in 2016. Yet the market still undershot TechCrunch's 2016 forecast for revenue by nearly half.

The underperformance is partly due to technical problems, including virtual sickness, which can cause nausea in a

significant proportion of users, and partly due to tendency for inflated expectations when new technology is introduced as revolutionary.

As a result of low penetration rates, VR has yet to catch on with developers, who rarely optimise their products for new devices.

Who are the big players in the retail space?

In retail, online console sales are the realm of the big three console manufacturers whose digital download services are built into their devices. On PC, digital downloads are dominated by Valve, who retains 50–70% of the digital download market.

Physical retail is far more fragmented than its online counterpart, but a few large regional retailers hold significant portions of the market.

[Game Digital is the largest player in the UK and Spain, where it retains a 30% share of the market with 581 stores in the UK and another 270 in Spain as of February.](#) GameStop holds a similar position in the US, along with EB Games in Canada.

Which companies are heavily involved in game development?

Among the most well known development studios, Electronic Art lost \$3.1bn from its market cap when controversy over 'loot boxes' faced political scrutiny from US lawmakers. Loot boxes are paid-for digital assets that give out prizes when they are unlocked.

In Asia, Hong Kong-based mobile developer Tencent recently announced a strategic alliance with Japanese company Square Enix in an attempt to diversify its offering in the core game market. The company already retains a 40% stake in Epic Games, whose last-man-standing arena game Fortnite has been massively popular.

Activision Blizzard, one of the largest development studios, has recently announced it hopes to compete with Epic Games' Fortnite. The company is testing a competing version of Epic Games' hugely popular title with its own take on the 'battle royal' genre for its recently released Call of Duty 4.

Nintendo has done well recently with Zelda Breath, selling 7.78m copies worldwide. This is just below 2017's most popular game, Call of Duty Infinite Warfare, which sold 7.97m copies. Nintendo is one of the few console manufacturers that develops the majority of its own platform games. Sony and Microsoft act more often as publishers and distribution partners for other studios rather than as developers.